



**KENTUCKY COMMERCE CABINET
OFFICE OF ENERGY POLICY**

Ernie Fletcher
Governor

Capital Plaza Tower, 12th Floor
500 Mero Street
Frankfort, Kentucky 40601
Phone (502) 564-7192
Fax (502) 564-7484
www.energy.ky.gov
August 15, 2006

George Ward
Secretary

Special Subcommittee on Energy
Legislative Research Commission
Capitol Annex
Frankfort, KY 40601

Dear Members of the Special Subcommittee on Energy:

As I am sure all of you are aware, the FutureGen Alliance recently announced the "candidate site" list. Unfortunately, Kentucky's site in Henderson County was not selected to move on to the next phase of analysis for the project. Two sites in Illinois and two sites in Texas were selected as "candidate" sites and will move forward through an extensive environmental impact assessment and further site characterization to determine where the project will be located.

Given the high-profile nature of Kentucky's bid to lure the project, I feel that there is an opportunity to review the process and outcomes related to the proposal. It is my hope that the lessons learned from the project and this analysis will better position the Commonwealth to reap the rewards of energy related industrial projects in the future.

First, I think that it is important to discuss the genesis of Kentucky's pursuit of FutureGen. The FutureGen project was announced by President Bush in February 2003. My assessment is that the first tier of competitor states for the project – Illinois, Texas and Ohio – began work on their pursuit of the project almost immediately. It appears to me that there was neither an aggressive nor coordinated effort on behalf of the Commonwealth to pursue the project during the last months of the previous administration.

When Governor Fletcher came to office, he recognized the need for Kentucky to have a more honed focus on our energy future. As a result, in November 2004, he launched the Commonwealth Energy Policy Task Force, which as you know included the co-chairs of this committee, Senator Stivers and Representative Pullin. The work of the task force resulted in the issuance of Kentucky's first comprehensive energy strategy in February 2005 and the subsequent formation of the Kentucky Office of Energy Policy (OEP) during the 2005 session.

The energy strategy – which OEP was charged with executing - contained the following recommendation:

The Commonwealth of Kentucky should initiate a full-scale effort to attract and site the federal FutureGen facility in Kentucky.

In June 2005, after the initial work had been completed to organize OEP, we launched Kentucky's FutureGen efforts. At the time, we understood that Kentucky was beginning the process late compared to our competitor states and that only an aggressive effort would allow the Commonwealth to truly compete for the project.

OEP immediately entered into an agreement with the Department for Commercialization and Innovation to manage about \$1 million in funds for the initiative. This was the beginning of OEP's efforts to pull together a number of state agencies to assist in the development of Kentucky's FutureGen proposal. By the time we launched our coordinated efforts to "characterize" what would become Kentucky's FutureGen site, OEP was being assisted by:

- The Governor's Office
- The Department for Natural Resources
- The Department for Environmental Protection
- The Kentucky Public Service Commission
- The Kentucky Transportation Cabinet
- The Finance and Administration Cabinet
- The Department of Revenue
- The Commonwealth Office of Technology – Division of Geographic Information
- The Department of Innovation and Commercialization
- The Office of the State Budget Director
- The Kentucky Geological Survey at the University of Kentucky
- The Center for Applied Energy Research at the University of Kentucky

During the 2006 Session, OEP worked with Representative Pullin to propose and pass House Bill 665 which would have significantly streamlined the regulatory siting process for the project. It passed unanimously in both houses. Further, we worked with Senator Stivers to include tax incentive language for the project in HB 422 – which unfortunately, did not pass by the end of the regular session. This language, however, served as the incentive language included in HB 1 during the 2006 extraordinary session, which was universally embraced by both houses of the legislature.

Further, by the time Kentucky had formalized and submitted our proposal it contained, among many things:

- Endorsements from Governor Fletcher, Senator McConnell, Senator Bunning, Congressman Whitfield, state Senator Dorsey Ridley, state Representative Gross Lindsay
- Resolutions of support from the Kentucky House of Representatives and Kentucky Senate.
- \$2.4 million in financial commitments to the project.

I offer all of this because the suggestion has been made by some that "state government could have done more." I suggest to you that state government, under Governor Fletcher's administration and in partnership with the Kentucky General Assembly, did absolutely all that it could given the fact that, as mentioned before, no effort had been launched to pursue the project prior to the drafting of the Commonwealth's comprehensive energy strategy. A suggestion that "state government could have

done more” is understandable given that it may have been impossible to know the extensive efforts undertaken by state government at the time such a suggestion was made. However, now that the facts are revealed, I would hope that it can be generally accepted that the efforts to pursue FutureGen were extensive, coordinated and aggressive – fulfilling the directive included in the energy strategy to launch a “full-scale effort to attract the FutureGen project.”

Now, I’d like to turn to the actual evaluation of Kentucky’s proposal and the selection of the “candidate sites” for FutureGen. The process was complex, driven by scientific and technical criteria and, in my judgment, completely objective. I don’t believe that politics played any part in the site selection process.

The process included, if you will, a “first cut” – the qualifying criteria. This stage reviewed each state’s proposal to determine if there were any characteristics of the sites, whether above or below ground, that didn’t meet the minimum “qualifying criteria” for the project. Was the site big enough? Was it located too near a Mandatory Class I Visibility Area (e.g. a national park) or a public access area? Was it too close to a sensitive feature (e.g. a large dam, reservoir or hazardous material storage area)? Would the facility rely upon water resources that are also underground drinking water resources?

I mention these because these are the “qualifying criteria” that eliminated four sites outright – West Virginia, North Dakota, Wyoming and Ohio’s Meigs County location. Kentucky’s Henderson County site met all “qualifying criteria” and therefore moved onto the “scoring criteria” which reviewed the sites and assigned scores to them to determine if a site would be a “candidate site.”

In the “scoring criteria” round, Kentucky’s site demonstrated some significant strengths and met with some significant challenges.

Our strengths included:

- Access to coal supply – the mine mouth location and access to barge traffic.
- Access to water resources – for transportation and operation of the facility.
- Availability of trained workforce.

The challenges included:

- Site size and associated issues with potential flooding.
- Proximity to electricity transmission.
- Recommended target sequestration formations.
- Proximity of faults to sequestration formations.

I would like to emphasize again, even in the areas that presented challenges to our proposal, we met the qualifying criteria established by the FutureGen Alliance – our site was sufficient. However, once compared to the other sites – comparing “apples to apples” – the Henderson County site did not compare favorably in enough areas. Therefore the “score” assigned to our proposal did not justify being selected as a “candidate site.”

At the end of the evaluation, the Henderson County site scored 8 out of 8 – remembering that four sites were eliminated from the “scoring criteria” round due to their lack of sufficient “qualifications.” I would like to point out, however, that while we finished 8th, only four states made it to the “scoring” round: Texas, Illinois, Ohio and Kentucky. Given the extensive work that had been done and the significant resources expended by those three states to prepare their proposals, for Kentucky to have made it to the “Final Four” is, in my mind, quite an accomplishment.

It is my estimation that our efforts – the efforts of the Fletcher administration and the actions of the General Assembly – have not gone unnoticed by the industry players involved with the FutureGen project. Kentucky put forth a very professional, credible and reasonably competitive proposal for consideration by the Alliance. While Kentucky was unsuccessful in landing the FutureGen project, I am confident that the effort will prove to be a significant benefit to the Commonwealth over the long run.

While the Office of Energy Policy continues to implement Governor Fletcher’s comprehensive energy strategy and moves on to the implementation of HB 299 – the Kentucky Energy Security National Leadership Act – I encourage the committee and other policy makers to evaluate the lessons that can be drawn from the FutureGen effort. Translating the overwhelming bipartisan support for Kentucky’s pursuit of FutureGen into further momentum for the “industrialization of Kentucky’s energy resources” could position Kentucky to seize the opportunities of what could be a transformational economic development moment in our state’s history.

The Commonwealth has a unique opportunity to be on the forefront of the emergence of a new industry based upon inherent resources – coal – found in only a handful of other states in the United States. I have predicted, and firmly believe, that *with the proper attention and progressive policy initiatives* – hence the importance of HB 299 – there is a greater likelihood that the next new multi-billion investment in Kentucky will be in its value-added energy sector than any other sector of its industrial economy.

Pursuing the vision of the Governor’s energy strategy, the directives of HB 299 and the commendable work done by the Committee will, in my mind, position Kentucky to seize those opportunities and realize its full potential in an exciting energy future.

Sincerely,

A handwritten signature in dark ink, appearing to read 'A. McNeill', with a horizontal line extending to the right.

Andrew V. McNeill
Acting Executive Director